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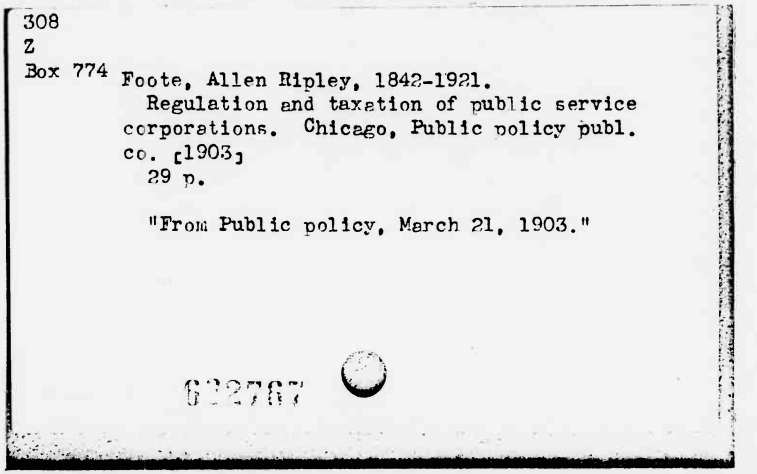

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BY
ALLEN RIPLEY FOOTE,
EDITOR PUBLIC POLICY,
CHICAGO.

From PUBLIC POLICY, March 21, 1903.

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CHICAGO.

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REGULATION AND TAXATION OF PUBLIC SERVICE CORPORATIONS.[1]

BY ALLEN RIPLEY FOOTE, EDITOR PUBLIC POLICY, CHICAGO.

Public service utilities owned and operated by private corporations should be regulated and taxed in identically the same way they would be—*they must be*—if successfully owned and operated by public corporations, municipalities, states or nations.

Successful ownership and operation is the rendering of the best service at the lowest self-sustaining price. All advocates of municipal ownership favor the complete withdrawal of public service utilities from the schedules of taxable property, by placing them in the schedules of public property, not taxable. Mr. John Paul, editor of Land Values, a Glasgow (England) paper of imperial circulation and influence, says: "Nothing of the profits from any of the successful municipal publicly owned services are taken to reduce the taxes, nor were any of these services initiated with that view."

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1. A paper read before a National Convention on Municipal Ownership and Public Franchises, held under the auspices of the New York Reform Club, Committee on City Affairs, New York, February 25-27, 1903.

TAXATION, A QUESTION OF PUBLIC POLICY.

If it is correct public policy to secure the best service at the lowest self-sustaining price for users, the policy regarding the taxation of the utilities, whether owned and operated by private or public corporations, should be identical. If they are taxed under private ownership, they should be taxed under public ownership in exactly the same way; or, if not taxed under public ownership, they should not be taxed under private ownership. The presence or the absence of the tax should be manifest to users in the price of the service. Whether or not there shall be a tax is purely a question of local public policy which each community should be free to settle for itself. The only point to be safeguarded is, in case the policy of no taxation is adopted, to make it certain that this reduction in the cost of ownership and operation shall benefit users by a corresponding reduction in price.

A PUBLIC MONOPOLY.

Whenever a public corporation undertakes to render a public service, it monopolizes the entire service within its jurisdiction. It does not permit competition with itself. It has absolute authority over its public rights of way, public parks, places and buildings. It can enter upon and use the same for the purposes of the service in any manner it deems best, without payment for a special grant of power or the expense of obtaining a permit from property owners or a board of public service. It avoids the wastes of competition

by making possible the economies of a regulated monopoly.

Every advantage that a public corporation can acquire and utilize in these ways should benefit users in identically the same way, and to exactly the same extent, under private as under public ownership and operation. The fact of ownership should have no effect upon policy or regulation in any of these particulars. Whatever the public may, and should do, when a direct owner and operator, should be done through its agent when a private corporation is the owner and operator. Every saving made in these ways should benefit users by a corresponding reduction in price, regardless of ownership.

PUBLIC SERVICE UTILITIES SHOULD BE FINANCED AS PUBLIC IMPROVEMENTS.

A public service utility is a public improvement and should be financed in identically the same manner, regardless of ownership. A very intelligent and rapidly growing school of economists declare that society has a fundamental right to a part, some demand all, of the increase in values created by social conditions, precisely as a worker has a natural right to the products of his labor. A partial recognition of this right is found wherever land owners are required, by special taxation, to pay a part or all of the cost of a public improvement which gives an added value to the land they own. The cost of improvements paid by taxation is not capitalized, and the use of such improve-

ments is freely enjoyed by all of the people without direct or special charge.

Why should not this sound economic principle be applied to the construction of works for rendering public services as well as to the construction of public streets? The opening or improving of a street cannot add a greater value to abutting land, in proportion to its cost, than is added by the construction of works for rendering a public service and the extension of service lines for the benefit of users. Abutting land owners are universally assessed for the cost of sewers. This is done sometimes in the case of waterworks by assessing abutting property owners for the cost of street piping. It is not done in the case of gas or electric lighting works, or for the transmission of intelligence, or the transportation of commodities and passengers.

THE PEOPLE HAVE BEEN ROBBED.

By assessing abutting land for improvement benefits, the value created by the improvement becomes the property of the public. Otherwise, it becomes the property of the owner of the land to which the value attaches. If it is permissible to use the word "robbery" in this connection—a word often applied with great bitterness to private corporation—it can be affirmed without risk of successful contradiction, that, by permitting land owners to retain *all* of the values created by establishing public service utilities, the people have been robbed of vast sums, almost if not fully equaling the entire construction cost of all such utilities. This

is as true of utilities owned by private as by public corporations.

CAPITAL ACCOUNTS SHOULD BE REDUCED BY VALUES CREATED.

Every public utility should be financed as a public improvement. A part at least of the value created by it should be assessed on the land benefited. The capital account of the utility should be reduced by this amount, and this reduction should benefit users by a corresponding reduction in price, regardless of ownership. This is a regulation of the very highest importance. While it is theoretically right, it seems quite impracticable under existing conditions.

Through neglecting to apply this principle, private corporations have been compelled to buy rights of way, to pay for the privilege of using public rights of way, to pay for permits to open streets, set poles and operate cars. The public has subjected its agent to these burdens, and permitted land owners to retain *all* of the value attached to their land by reason of the improvement, while users have regarded themselves as helpless victims of an economic system which, without mercy or justice, causes the rich to grow richer and the poor to grow poorer.

By reason of the risks and capitalization made necessary by compelling private corporations to pay for increasing the value of land abutting the improvements they have made, the public has compelled users to pay a double price.

By permitting abutting land owners to retain the entire value created by the improvement of a public service utility, a free gift, the public has compelled users to pay rental on the increased value without any corresponding benefit excepting the indirect benefit of a slight increase in the assessed value of the land when scheduled for general taxation.

THE ENVIRONMENT OF CUSTOM.

Much has been heard about the crime of giving away grants, popularly known as franchises. Why has nothing been heard of the iniquity of giving away all of the value created by public service utility improvements? It is because long established custom has made it seem right for land owners to appropriate to their own use the values created by social conditions. This custom has been decidedly to the advantage of the land owners. It has caused the people to follow a false scent. It has caused them to denounce the giving away for long terms, or perpetually, of unbought and untaxed franchises. It has caused them to grow indignant over watered stock and to completely overlook the additions made to land values for the purpose of capitalizing the increased value attached to land created by public service improvements.

ERROR MUST BE CORRECTED BY TRUTH.

This error in the regulation of public service utilities cannot be charged to corruption or greed. Public officials cannot be blamed for it, because their action has conformed to the popular conception of right.

Land owners cannot be blamed for it, because they have only accepted the gifts of value custom has for a long time given to them without question. Users of public services cannot be blamed for it, because they have been too busy, making money or earning a living in other ways, to give sufficient thought to these questions of public policy to discover how the money they were making is taken from them for the enrichment of others.

While the people are too little informed, or too much misinformed, to see how conditions can be changed, without doing violence to any interest, but by being just to all interests, their case is hopeless. They must have knowledge of the truth before it can serve them. There is a world-wide effort to bring this knowledge into recognition and practical application.

A PUBLIC UTILITY TO BE PAID FOR BY THE VALUES IT CREATES.

The German emperor is enamored with a project to unite the Rhine and the Elbe by a canal running through the heart of the greatest manufacturing district in Germany. Although the canal is not an assured fact, cunning speculators are active in projecting schemes to exploit the increased value of land that will be created by this great public improvement. A land reform league, composed of advanced economists, is bending all of its energies to the prevention of this speculation by securing legislative action which will give the increased values to the state, thus creating a fund out of which the costs of the improvement can be

paid. In this way they hope not only to secure a great and direct public benefit, but also to establish a precedent which will be of incalculable value to the world.

ACCOUNTING, AUDITING, PUBLICITY.

To say that the accounts of all public service utilities should be kept by a system, uniform for every utility of the same class, properly designed to show the entire and true costs of ownership and operation, and that all such accounts should be audited by a public auditor, is so obviously true the statement causes people to wonder why this has never been done.

To go one step further and say that the system of accounting should be identical for *all* public service utilities, regardless of ownership, is to voice the thought of every intelligent champion of ownership and operation by private as well as by public corporations.

To declare that the people should be informed as to the true and entire cost of ownership and operation, by annual comparative reports published by the state and certified as to correctness by the auditor of state, is to demand that they shall have the means of forming an intelligent judgment regarding the comparative efficiency of public and private ownership, and be in position to adopt whichever public policy, in the light of facts so ascertained, is shown to be best for the general welfare.

This is a regulation that has been too long neglected. The lack of it is costing the people of every state each year many times the expense involved in

establishing the system. It is the duty of the state to first standardize the accounts of the public utilities already owned and operated by public corporations, and then to provide a way in which the accounts of public utilities owned and operated by private corporations can be brought under an identical system. When this is done the people will enjoy the benefits to be derived from properly regulated monopolies. Until it is done the war of the uninformed and the misinformed upon the subjects of speculation and investment must continue. A war between parties willing to be just, but not knowing how.

PRICE BASED ON COST.

When a correct accounting and auditing system is in force the price of service can be determined for fixed period of ten years, under conditions that will bring to users the entire benefit of low taxation, or no taxation; of reduced capitalization effected through appropriating for public use a part of the value created by each public improvement; of improved efficiency in management induced by correct and exact comparisons of results; of all improvements in the arts, general economic conditions and growth of population.

Under public ownership and operation the price should be only sufficient to pay the true and entire cost of the service. If it is less than this a deficit will be created which taxpayers must pay. If more than this a surplus will be created by which others than users who pay the bills will benefit.

Under private ownership and operation the price

should be only sufficient to pay the true and entire cost of the service, *plus a reasonable profit.* All honest-minded and intelligent persons are agreed that so long as the public employ private corporations to own and operate public service utilities such corporations are justly entitled to a reasonable profit. The demand is to have it made certain that the profit earned is only reasonable. This demand will be completely satisfied by the uniform accounting regulation advocated.

FAILURE OF MUNICIPAL OWNERSHIP DUE TO WANT OF REGULATION.

The accounting regulation is the basis upon which any intelligent regulation of charges for services rendered must rest. In the absence of this regulation, all action must be guided by guessing and prejudice. There is no foundation for reason without a knowledge of the facts.

This regulation is as indispensable to successful municipal ownership and operation as it is to correct regulation of private ownership and operation.

A bill is now pending before the Legislature of Indiana which presents a lesson to which the attention of all municipal ownership advocates should be drawn. It is to permit the sale to the highest bidder, of a municipal electric lighting plant, a franchise for operating the plant to be granted to such bidder. Municipal Engineering for February, 1903, gives an account of this case from which the representations here made

are taken. The plant was constructed some years ago and was seemingly quite successful for some time. Rates for service were considered high and were lowered from time to time. It is suggested that desire for political favors from some large consumers led to fixing rates for them at specially low figures. To make a good showing for prompt collections 20 per cent discount for prompt payment was made, even from these low rates. The result of all these bids for popular favor has been that, while the works have been operated in such a way as to pay expenses, there has been no proper provision for depreciation. A new administration finds a plant requiring thorough re-construction and the correction of some errors in design, but finds no money with which to do the work, no credit on which to raise the money, the city's debt limit being reached, and no possibility of running the plant long enough at higher rates, admitted to be necessary, to replace the old machinery from the profits of the business. In despair at the situation, the city officials have applied to the Legislature for an act to enable them to sell the plant to the highest bidder.

Enthusiasm for municipal ownership is probably at low tide in that city.

A WARNING FROM GLASGOW.[1]

Mr. John Paul (of Glasgow, England) is a single-taxer and represents through his paper, Land Values, that sentiment in Scotland, where it is very

1. From The Public, Chicago, January 24, 1903.

strong—even controlling the Glasgow city government. His views on the social utilities of these municipal improvements are of special interest. On this point he writes:

"Single-taxers, as such, do not attach much importance to municipal services. I have been interested at times in the visits of American single-taxers here who profess admiration for Glasgow's controlling these monopolies; and as I look at your prints advocating a similar policy for the towns of the United States, I wonder, in view of our experience here, if the game is worth the candle. Whether they are controlled by private corporations or by the municipality, these services only add to rent. The conversion of the tramways from horse haulage to electricity and their extension for miles in every direction has sent up house rents, one, two and three pounds a year, and, as you know, these advances in rent must be paid by all householders, whether they use the cars to greater or less advantage, or not at all. Of course, there is a sense in which the citizens get an advantage from some municipal improvements that the landlord cannot take from them. The children can have the enjoyment of open spaces and parks. But even these in the long run mean better health for the city, and consequently more ability to produce wealth for somebody else to enjoy.

"But to come to the more political aspect of the question. The private corporations, it is asserted, owning and controlling your municipal monopolies, or

services, control and dominate your local legislatures. They bribe councilors to vote in their interest and further pollute public life by promoting the candidature of their own creatures. This is pretty bad and must make many who stand for progress at times despair.

"But look at the situation from our point of view. We have some 15,000 workers in the employment of the Glasgow Council, and every further piece of municipal expansion adds to the number. Many of these workers are organized and are exercising more and more political influence in the return of their own creatures to the council. The candidate for their support is not the man who will look after the interests of the city, but one who will promise most to the employes of the council. The best interests of the city is a secondary consideration. In fact, these workers cannot see the city's interest except through their own, while the more vigilant of them work for the return of candidates who will assist them or their friends into corporation jobs. A labor candidate publicly boasted on the hustings that he had got so many men municipal employment during his term of office, which means that we have Tammany here. And we are likely to have more of it in the future. This is due solely to economic pressure caused by locking up the land in the hands of a class. It is accentuated by effecting municipal progress and expenditure. Therefore, as I say, we single-taxers are not at all enthusiastic about these municipal improvements."

The above is full confirmation of what I have for many years been endeavoring, as best I could, to teach the people of this country. The only hope for successful municipal ownership is in service regulations based upon merit only. Tenure of employment and promotion in the service should be absolutely dependent upon service record. In this way only can the lack of discipline enforced by the dictates of self-interest under private ownership, be made good under public ownership. In this particular, the regulation of the two forms of ownership while identical in principle, require different methods for bestowal of rewards for efficiency.

CONCLUSIONS AS TO REGULATION.

To cause public service corporations to serve the public in the best possible manner, and render the best service at the lowest profitable price, they must be subjected to a system of regulation identical in every detail, excepting only the civil service regulation, with the system of regulation that the people must insist upon for publicly owned and operated utilities, if municipal ownership is to be successful.

Failure, in the case of private corporations, is at the expense of stockholders.

Failure, in the case of public corporations, is at the expense of tax-payers.

Rates charged by private corporations, based on cost plus a reasonable profit, will be the lowest profitable price at which private corporations can afford to render a service.

Rates charged by public corporations, fixed at cost, will be the lowest price at which public corporations can render a service without creating a deficit which tax-payers must pay.

If cost is determined in both cases by an identical method, the margin of difference in price cannot exceed the profit of the private corporation. If public waste equals corporate profit, the price at cost, plus profit, under private ownership, will only equal cost under municipal ownership. The price to users in both cases will be identical.

Unless public management can be made as efficient as private management it is impossible to realize an economic gain by transferring a public service utility from private to municipal ownership.

STATE AND LOCAL TAXATION.

The question of taxation will now be considered.

A search of existing systems of state and local taxation will disclose the fact that there is no satisfactory system of taxation in practical use in any state in the union. More than this is true. There is not a state in which there is a system of taxation in which sound principles are correctly applied. In many states the adoption of a simple and just system of taxation is prohibited by constitutional provisions.

It is impossible to discuss the taxation of one class of subjects without considering the general system of taxation of which it is a part.

The first fundamental principle of a simple and just system of taxation is:

No subject should be directly taxed more than once, or by more than one taxing body.

The application of this principle requires the separation of sources of revenue for state purposes from the sources of revenue for local purposes.

The principle that should govern the assignment of subjects of taxation as the sources of revenue for the exclusive use of a taxing body is:

Subjects of taxation assigned to a taxing body should be such subjects as it is in the best position to deal with intelligently and justly.

The application of this principle will give local taxing bodies exclusive jurisdiction over the taxation of property by assessed valuations, and will give to the state exclusive jurisdiction over the taxation of corporations as such.

An intelligent and just opinion as to the value of property can best be formed where it is located.

The state only has power to require the reports, to make the examination and to exercise the general supervision over corporations that is necessary to the formation of an intelligent and just opinion regarding methods of assessments and rates of taxation that should be applied to them.

This separation will at once remove the most fruitful source of dissatisfaction with existing taxation systems by taking from taxing bodies jurisdiction over subjects of taxation which they cannot tax intelligently or justly, such as the taxation of real estate by the state, and the taxation of corporations by local taxing bodies.

The principle that should govern taxation by valuation assessments is:

All equalizations of valuation should be made within the jurisdiction of the taxing body in which the property valued is located.

Value is and must always remain an expression of opinion only. One of the chief difficulties in attempting to legislate on the subjects of taxation, or to administer the laws enacted, is found in the use of the term "value" as a concrete and invariable quantity, when in fact it is the most intangible and variable factor in the entire problem.

The application of this principle will abolish all county and state boards of equalization and place the problem of equalization where it properly belongs, in the hands of those directly interested.

When valuations and equalizations are made exclusively within the jurisdiction of small taxing bodies, every property owner can be supplied with a published list of all property scheduled and the value put upon it. This will enable him to know how his own and all other property is valued. Having this information, and knowing the local Board of Review has final power over all questions of equalization, any property owner can make application direct to the board and appear in person if he so desired, to secure an equalization of any values on the list. Motives of self-interest can be depended upon to secure an equitable valuation for all property within the jurisdiction of a local taxing body. Provision should be made for an appeal to a court of competent jurisdiction in case a property

owner is dissatisfied with the decision of the local Board of Review.

The principle that should govern the designation of a basis of taxation for any class of subjects is:

The basis of taxation for every class of subjects should be concrete in character, to the exclusion of value, whenever practicable.

The application of this principle will lead to the substitution of the income from property, for the value of property, wherever the business involved is conducted in a manner to render the exact gross receipts from the use of the property easily ascertainable.

In the light of the uncertainties and difficulties experienced in all attempts to use value as a basis of taxation, the good policy of discarding value and adopting gross receipts, for all classes of property used for the purpose of a business upon which a gross receipt tax will lay a just proportion of the common burden of taxation, cannot be questioned.

FLEXIBILITY SECURED.

In applying the principles thus far stated it will be observed that by excluding counties and the state from any direct share in the general property tax, they may be left without sufficient revenue. Independent subjects for county and state taxation will be found, but it is not expected, nor considered desirable, to enable counties and the state to secure their entire revenue without access to the general property tax. This access will, however, be indirect instead of direct.

For the purposes of taxation, every taxing body

must be dealt with as a public corporation. Primarily, the general property tax is assigned as an exclusive source of revenue to the taxing body under the jurisdiction of which property must be scheduled and valued.

Having full jurisdiction of the general property tax each public corporation should have full power to determine for itself what kinds of property it will tax, by what rule each class of property shall be valued, and at what rate, within the limit prescribed by the Legislature, it shall be assessed.

Giving this power to village, city and township governments will supply flexibility to a taxation system. It will enable each community to study the incidence of taxation at close range, and to adopt that policy which to them appears best suited to the development of their own local conditions. The methods by which a local, public corporation derives its revenue will not be a cause of interference from any other taxing body, because no other taxing body will be affected in any way by the method, nor will have any more interest in it than in the amount raised for purely local uses, or the purposes for which it is expended.

GROSS RECEIPTS OF PUBLIC CORPORATIONS A SOURCE OF REVENUE FOR COUNTY AND STATE PURPOSES.

Under a system of uniform public accounting, which unquestionably must be the basis of a simple and just system of taxation, the gross receipts of all public corporations derived from taxation and from such public service utilities as they may own and operate will al-

ways be known with unvarying exactness. The total of such gross receipts can be made a concrete basis of taxation for county and state purposes. By this method the amounts apportioned to local taxing bodies, to make up the amounts required by county and state governments not derived from other sources, will be an indirect tax on general property valuations.

The amount of taxation levied by a community for its own purposes is a just measure of its own estimate of its ability to pay taxes.

The amount required by the state, in excess of its receipts from other sources, can be apportioned to the counties on the basis of the gross receipts of each. The amount required by each county in excess of its receipts from other sources, including its share of the state requirement, can be apportioned to each local taxing body on the basis of its gross receipts. To the amount required for local purposes, each local taxing body can add the amount apportioned to it by the county. As the local revenue will be derived from the general property tax, this will make the requirements for county and state purposes an indirect burden on the local property valuation; it will be apportioned on the basis of local gross receipts. By means of this change, county and state boards of equalization can be abolished, and a simple and just system of taxation established, from which most of the evils now complained of will be eliminated.

GROSS RECEIPTS AN IDENTICAL BASIS FOR TAXATION OF ALL PUBLIC SERVICE CORPORATIONS.

All taxing bodies are public service corporations.

All private corporations owning and operating public service utilities are public service corporations. The gross receipts of each public service corporation furnishes an identical basis of taxation that can be used with equal justice to the exclusion of all taxation based on valuation.

The state is the only taxing body possessing sufficient jurisdiction, in all respects, to tax public service corporations intelligently and justly. It can prescribe a uniform system of accounting and reports, for all public service corporations of both classes, that will disclose the total amount of their gross receipts with unquestioned exactness. It can assess these amounts at a uniform rate with impartial justice. The entire revenue from this source can be appropriated exclusively for state purposes and will become its principle source of revenue.

This system of taxing public service corporations satisfies every requirement of simplicity and justice. It rests upon a concrete basis that will always be an undisputed fact, never the subject of an intangible and changeable opinion. It is simple, fixed proportionate, easily ascertainable, and susceptible of ready levy.

The want of such a system is universal. It does not exist in any state. This was the condition of affairs twenty-four years ago. It is the condition now.

REPORT OF A COMMITTEE OF STATE RAILROAD COMMISSIONERS.

A report was made to a convention of state railroad commissioners held at Saratoga Springs, N. Y., June

:o, 1879, by a committee consisting of C. F. Adams, Jr., of Massachusetts, W. B. Williams, of Michigan, and J. H. Oberly, of Illinois, on "Taxation of Railroads and Railroad Securities," in which the following statements are made:

"A compendium of the system in use in all the states of the union has been prepared. On examination of this compendium of state systems in present use in this country, it will at once be observed that they are much more varied than would need be supposed, or, perhaps, than would have been thought possible. Generally, it may be said, there is no principle running through the various systems described; and further, that there is no method of taxation possible to be devised which is not at this time applied to railroad property in some part of this country. So far as these now well-recognized principles, which should be at the basis of all systems of taxation, are concerned, they would as a rule seem to have been utterly ignored.

"The franchise tax, the gross and net earnings tax, the personal property tax, the realty tax, are all met with indiscriminately; applied sometimes by local boards, sometimes by boards of state equalization, but always invariably in utter disregard of principle.

"The New York State Assessors, in their annual report for 1873, expressed the opinion that there was 'no uniform rule for any road, in any county, each assessor being governed entirely by his own views.' In certain towns railroads appear to pay about one-third of the entire taxes, while the assessed valuation now (1878) varies from $400 per mile to $100 per rod.

The difference in the assessment of the New York Central and Hudson River roads, where, for all the purposes that the road can be used, it is of the same value to the company, is $24,000 per mile. In short, it is scarcely an exaggeration to say that the assessments are as unlike as the complexion, temperament and disposition of the assessors.

"It does not need to be pointed out that a system such as this—and it is the system in most general use —compels the corporations, in self-defence, to an active participation in local politics. Indeed, it is not too much to say, that, as a system, it is open to almost every conceivable objection.

"The requisites of a correct system of railroad taxation, are, that it should, in so far as it is possible, be simple, fixed, proportionate, easily ascertainable, and susceptible of ready levy."

If there is any doubt as to the continuance of the chaotic condition of the taxation systems of the several states so graphically described by this able committee in 1879, such doubts will be dispelled by reading an article written by the most recent investigator, Prof. John R. Commons, secretary Taxation Department, National Civic Federation, published in the American Monthly Review of Reviews, February, 1903.

Judging by experiences such as these investigators of 1879 and 1903 report, which are common to all classes of property in all states, it is wiser for the people and for public service corporations to accept a tax based on gross receipts than to sustain the inequalities

of arbitrary assessments based on arbitrary valuations.

THE GOOD POLICY OF TAXING PUBLIC SERVICE CORPORATIONS.

Theoretically, a correct application of sound economic principles requires that all property devoted to a public use shall not be taxed, and that all property devoted to the uses of a public service shall be classed, regardless of ownership, as devoted to a public use and not taxed.

It is true that a community can make no gain by taxing its own public property, such as city halls and parks, but it is not true that a gain cannot be made by taxing the gross receipts of a service that is sold to users on the basis of payment for the service in proportion to the use made of it. It is true that a tax on gross receipts from the sale of public services, such as are under consideration, will be inequitable if tested by the earning capacity of all persons who would be so taxed. A wage-earner pays more for street car fares than his employer. His income is much less, therefore he will pay a larger share of a tax on gross receipts from street car fares than his employer, and the share paid will be a much larger per cent of his earnings. A taxation problem, however, cannot be solved by considering but one of its many factors. It is true that a wage-earner will pay more of a tax on gross receipts from street car fares than his employer and that the payment will be a very much larger per cent of his earnings than will the share of the same tax

paid by the employer, but it is not true that this fact proves that the wage-earner is taxed unjustly by the system of taxation considered in its entirety. There are many ways in which an employer is taxed that do not directly reach the wage-earner at all.

The burdens of taxation cannot be distributed in a way to rest with exact precision upon every individual in proportion to his ability to pay, whether this ability be measured by his property, his gross or net earnings, unless it be placed on a single subject universally used, such as land. While this is true, it is also true that it is impossible to distribute the burdens of taxation, which represent the costs of government, in a way to cause each person to pay his share in proportion to benefits received.

The person who pays least taxes usually receives a greater benefit, in proportion to the amount paid, than any other person in the community. But for the government he would be deprived of his natural rights. He would cease to be a freeman and would fall back to the condition of slavery from which he has been raised by civilized government, very little of the true and entire costs of which he has paid. In fact, his entire payment of taxes during his lifetime is infinitesimal in comparison with the price he would pay for his freedom if now enslaved.

The education of the children of wage-earners at public expense is a service worth far more to them than all the taxes they pay in any manner, directly or indirectly.

These illustrations are given to support my affir-

nation that it is impossible for any person, rich or poor, to use for his own benefit the amount he pays for taxes, even though the burden be not equitably distributed, in a way to secure as substantial and valuable benefits as he derives from the government for the support of which his taxes are paid. The injustice complained of cannot be that tax-payers do not receive full value for their payments, but that the service rendered is made to cost more than necessary by inefficient and wasteful management, and that the burden is not equitably distributed among all who should pay their fair share of it.

A tax on gross receipts from the sale of public services, that are paid for by users in proportion to the use made of them, will diffuse itself through the whole body of the people as equitably and completely as any tax that can be devised. Funds collected in this manner can be used by the state in a way to return greater benefits to the people than can be obtained by them from the individual expenditure of the same amount paid by them individually, as an indirect tax, through the prices of the services they use increased by the amount of the gross receipt tax. A correct public policy therefore requires that a gross receipt tax be assessed upon all services sold to users, whether rendered by public or private corporations.

CONCLUSION AS TO TAXATION.

Theoretically, the general welfare is best served by supplying public service to users at cost, when under public ownership, and at cost plus a reasonable profit,

when under private ownership, *exclusive of taxation.*

Practically, the general welfare is best served by supplying public services to users at cost, or at cost plus a reasonable profit, as the case may be, *cost to include a tax on gross receipts.*

Taxation systems will be more simple and just when efforts to tax personal property are discontinued and the deficiency in revenue so caused is supplied by a gross receipts tax on public services of all kinds. Every person relieved from taxation by the exemption of personal property will pay as much indirectly—in many cases more, through a gross receipt tax on public services, than he has ever paid directly by the taxation of personal property.

In assessing a gross receipt tax but one point requires safeguarding. It must not be at a rate sufficiently high to place a local community, a state, or the nation at a disadvantage on account of the correspondingly increased costs of its services, in the irrepressible competition for commercial advantages that always exists, potential and active. For securing such advantages, public services are factors of high potency. They are the equipment that must be provided in the best form, and at the lowest profitable prices, if commercial victories are to be won in the world-wide competition of a municipality with municipalities a state with states a nation with nations.

QUESTIONS OF PUBLIC POLICY RELATING TO PUBLIC SERVICE CORPORATIONS.

EDITORIAL: PUBLIC POLICY, MARCH 21, 1903.

Public service corporations now have a history covering sufficient time, experience and variety of local conditions to enable the people to arrive at correct conclusions as to what public policy regarding their regulation and taxation will best serve the general welfare. Upon these points no state has to-day a well established and clearly defined policy applying correct economic principles. The whole body of state legislation now in force has been produced by those who have sought some special advantage for their locality, or themselves, regardless of its effects upon the general welfare of others. That a body of laws created in this way should fail to work well, either for the people or for investors, is not surprising. If investors have succeeded in grasping an undue advantage in any

way through lack of experience or watchfulness on the part of the people and their representatives, or if they have not, the belief that they have has the same effect on the public mind, the time for a readjustment has come. The general welfare cannot be well served by attempts to even things up by now giving undue advantages to the people as an offset for the undue advantages corporations may have enjoyed in the past. It is an old and true saying that "two wrongs cannot make one right." A sound discussion and good judgment is now required to evolve from the chaos of the past a new and sound public policy that has for its purpose the doing of exact justice to those who use and those who render public services. To this end we hope our discussion of this subject may be helpful.

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